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Theoretical Perspectives on Family Firms

Abstract This chapter offers a general perspective on family firms—the most widespread form of business organization. It begins with an analysis of various possible definitions of “family firm,” distinguishing two main approaches: components-of-involvement and essence. This assessment establishes a challenge to traditional views that treat family firms as homogeneous. Next, a review of existing literature provides a systematic summary of the primary theoretical approaches adopted to investigate family firms: agency theory, the resource-based view of the firm, stewardship theory, and the behavioral agency model. This chapter concludes with a discussion of how the behaviors, goals, and interests of family firm owners define their firms’ strategic decisions and performance.

Keywords Family firms · Family firm heterogeneity · Family business theory

2.1 Family Firms: Definitions

Globally, family firms are the most common, diffused, and widely studied ownership structure, such that they contribute significantly not only to business and society as an essential business organization (De Massis et al. 2015) but also to organizational research as an empirical and theoretical research topic (Botero et al. 2015; De Massis et al. 2015; Carney et al. 2015). A recent business press report (The Economist 2015) indicates that more than 90% of the world's businesses are family managed or controlled, with varied influences across many different countries (e.g., Klein 2000; Anderson and Reeb 2003a; Morck and Yeung 2004; Villalonga and Amit 2006; Astrachan and Shanker 2003). For example, family businesses make up more than 80% of private-sector firms in the USA, employing 57% of the US workforce and contributing 63% of its gross domestic product (GDP) (McKinsey & Co. 2014; De Massis et al. 2015). Of the 500 largest family firms, 23.4% are in North America and account for 11.4% of North America's GDP; 46.4% settled in Europe, accounting for the 14.8% of the continent's GDP; and the rest are distributed across the Asia-Pacific and Latin America (Global Family Business Index, University of St. Gallen, Center for Family Business, EY Family Business Yearbook 2016). Research by Klein (2000) reveals that 58% of German and 71% of Spanish companies with more than €1 million in annual turnover are family businesses. In Europe, Italy is the nation with the greatest concentration of family firms; they account for 94% of its GDP (McKinsey & Co. 2014). This status likely has arisen because Italy offers several characteristics that are well suited to the emergence of a typical family business (e.g., Minichilli et al. 2010; Prencipe et al. 2011; Ling and Kellermanns 2010). Thus, Italian firms also exhibit a greater involvement of family members in key management positions (55% of family-controlled companies on the Milan Stock Exchange feature a family member as CEO; Minichilli et al. 2010).

With a three-cycle model, Lansberg (1988) denotes family membership, ownership, and management as the key features that distinguish family from non-family firms. Several subsequent attempts also seek to

consolidate a clear definition of what constitutes a family firm (Chua et al. 1999; Sharma 2004; Pindado and Requejo 2015; Carney et al. 2013). For example, Chua et al.'s (1999) review of family firm definitions highlights the need to integrate essential elements of family business, such that they propose the following inclusive explanation:

The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families. (Chua et al. 1999, p. 25)

Similarly, Astrachan et al. (2002) emphasize “soft” factors and develop a continuous F-PEC (family, power, experience, culture) scale to classify the family's influence. Anderson and Reeb (2003a) instead cite operational criteria to investigate differences between family and non-family firms in their financial performance.

The widespread diffusion of family firms, and the varied theoretical and empirical perspectives through which they have been investigated, thus leaves the definition of a family business unclear (Chua et al. 1999; Klein 2000; Astrachan et al. 2002; Sharma 2004; Pindado and Requejo 2015). The fragmentation also may be due to the operational nature of most research, such that scholars actively seek more extensive or tighter definitions, depending on their theoretical perspective and empirical setting (Klein 2000; Pindado and Requejo 2015). Thus, the same data set seemingly could lead to disparate results, depending on the definition used to classify the businesses as family-owned or not (Shanker and Astrachan 1996; Klein 2000).

A broad approach to account for the variety of family firm typologies would acknowledge that a family business is influenced substantially by one or more families in making its strategic choices (Shanker and Astrachan 1996; Klein 2000; Carney 2005; Fiegenger 2010; Pindado and Requejo 2015). The influence stems from three dimensions: family involvement in company management, control, or family ownership (Carney 2005; Fiegenger 2010; Pindado and Requejo 2015). In a comprehensive, empirical research review, Pindado and Requejo (2015)

note that 57% of family firm studies use a definition associated with the ownership structure and 22% rely on a definition pertaining to family management or control. Thus, extant definitions tend to be operational in nature, without a systematic sense of which components (ownership, management, control) are most pertinent and in which proportions (Chua et al. 1999; Chrisman et al. 2005b).

Furthermore, the definitions adopted often reflect the nature of the study being conducted. Finance researchers generally employ an ownership structure definition; management scholars tend to focus on managerial or control elements. The results of such studies also reflect the empirical setting, and in this sense, financial scholars frequently analyze large, publicly listed family firms, with their extensive and easily accessible data (Classensen and Tzioumis 2006; Le Breton-Miller and Miller 2009; Pindado and Requejo 2015), while management scholars focus more on small to medium-sized, privately held businesses. Management studies accordingly suffer from a lack of readily available financial and ownership data, compared with the larger body of research on publicly listed companies, so they require softer, qualitative criteria to define family businesses (Klein 2000; Carney et al. 2013; Pindado and Raquejo 2015).

Among the confusion though, two theoretical approaches to defining family firms are widely accepted (Siebels and Knyphausen-Aufseß 2012). First, the *components-of-involvement approach* defines family firms according to the percentage of shares (i.e., decision-making rights) controlled by the same family or owner (Chua et al. 1999; Siebels and Knyphausen-Aufseß 2012; Schmid et al. 2015). The threshold changes, depending on the country or geographical area analyzed, to reflect differences in local institutional environments, country legal origins, institutional regulations, investor protection policies, stock markets, and overall rule-of-law standards (La Porta et al. 1998; Carney et al. 2013; Schmid et al. 2015). For example, in the USA, listed companies are defined as family firms if 5% of the voting rights concentrate with the same owner, but in the EU, the threshold is 25%, and the country-specific requirements range from 20% in France to 50% in Italy (Anderson and Reeb 2003a; Villalonga and Amit 2006; Minichilli et al. 2010; Prencipe et al. 2011; Schmid et al. 2015). This lack of

consensus is the main limitation of the components-of-involvement approach; it leaves substantial room for interpretation and conflicting results.

Second, according to an *essence approach* to defining family firms, family involvement (i.e., ownership, management, and/or control) is a necessary and implicit but not sufficient condition to identify a family business (Chrisman et al. 2003; Chua et al. 1999; Habbershon et al. 2003; Siebels and Knyphausen-Aufseß 2012). The familial nature of a company thus depends on the behaviors of its members, which are distinctive with respect to those of non-family firms. These behaviors might include a willingness to influence the firm's strategic direction or vision, family involvement, social capital and emotional attachment, the pursuit of noneconomic values, and the adoption of a longer time horizon perspective (Chrisman et al. 2003; Chua et al. 1999; Habbershon et al. 2003; Gomez-Mejia et al. 2007). Compared with the more operational components-of-involvement approach, the essence view is theoretical in nature, allowing for the development of frameworks that specifically address family firms' distinguishing features. Yet it also lacks precise thresholds.

Thus, the best option may be the synergic adoption of both approaches. Starting with such a convergence objective, along with the set of definitional issues, several studies have sought to categorize different family business forms, in an effort to enhance understanding of family firm heterogeneity and shed light on existing theoretical approaches (Chrisman et al. 2005b; Westhead and Howorth 2006; Bammens et al. 2011).

2.2 Family Firm Heterogeneity

Melin and Nordqvist (2007) caution that ignoring family firm heterogeneity could lead to inaccurate understanding (Chua et al. 2012), and in response, family firm scholars try to distinguish not just family versus non-family firms but also categories within the set of family businesses (e.g., Melin and Nordqvist 2007; Chua et al. 2012; Pindando and Requejo 2015; Schmid et al. 2015). This heterogeneous group of

firms contains differences that can influence key firm features, such as diversification decisions (Schimd et al. 2015), innovation (De Massis et al. 2015), and firm performance (Pindando and Requejo 2015). Accordingly, theoretical developments also consider the sources of family firm heterogeneity. Chua et al. (2012) recommend a categorization based on three main features of family firms: family goals (Chrisman et al. 2012; De Massis et al. 2015), resources (Habbershon et al. 2003), and governance structures (Carney 2005).

Owners of family firms tend to be concerned about both economic and noneconomic goals, and their levels of relevance can explain family firm heterogeneity. For example, the main element of a family firm is that it likely seeks to ensure family control and survival, because the firm functions like a family asset that can be passed on to the next generation. In some cases, this goal even overrides traditional profit maximization or value creation goals (Gomez-Mejia et al. 2007). Family involvement, in terms of ownership and management, thus is positively associated with the adoption of noneconomic goals, and family essence partially mediates this relation (Chrisman et al. 2012). In other words, the manner and extent to which the family influences firm decisions are a central driver of family firm heterogeneity. Some family firms actively pursue noneconomic outcomes such as family harmony or social status (e.g., De Massis et al. 2015), but others are more oriented toward profit maximization and wealth creation.

Adopting a resource-based view, which notes the roles of resources and capabilities in building competitive advantages (Barney 1991), family firm heterogeneity also might stem from the resources and capabilities that family owners require to reach their goals. Family business scholars show that path dependence in resource accumulation (Arregle et al. 2012), tacit knowledge and social capital (Lichtenthaler and Muethel 2012), and human capital (Sirmon and Hitt 2003; Verbeke and Kano 2012) all can be sources of family firm heterogeneity, in that they lead to differences in firm behavior and performance. For example, Verbeke and Kano (2012) identify a bifurcation bias—that is, the tendency of family firms to consider family managers as stewards but non-family managers as opportunistic agents—as a potential source of competitive disadvantage for large firms in high-tech industries. The relevance of this bifurcation

bias depends largely on how the firm manages its economic and noneconomic goals, as well as the levels of trust and institutional development.

Finally, the governance structures adopted by family firms differ from those of non-family firms, reflecting distinct alignments of ownership, control, and management (Carney 2005). The heterogeneous roles of family owners, in terms of their varying involvement in ownership, control, and management, also might clarify heterogeneity at the firm level (e.g., Nordqvist et al. 2014; Schmid et al. 2015; Arregle et al. 2012). For example, if family members control majority ownership and are involved both in management and on the board (Sirmon et al. 2008), these owners have discretionary power over the firm's strategic options. They can leverage their social capital and indisputable control (Carney 2005) to gain advantages. Yet they also might suffer potential disadvantages, such as a greater risk of free-riding or redundant information (Arregle et al. 2012). Alternatively, if firms feature a strong family influence but not majority ownership, these family members have a less dominance over strategic decision making (Sirmon et al. 2008). In this case, powerful stakeholders (e.g., shareholders, directors, board members) may limit the ability of family owners to operate solely at their own discretion.

2.3 Theoretical Approaches to Family Firms

Reflecting this heterogeneity, multiple theories and frameworks have sought to disentangle the complexity surrounding family businesses. Scholars mostly rely on four pertinent theories: agency theory, the resource-based view, stewardship theory, and behavioral agency theory (Le Breton-Miller et al. 2015; Siebels and Knyphausen-Aufseß 2012; Bammens et al. 2011; Berrone et al. 2012).

2.3.1 Agency Theory

Agency theory is perhaps the most widely acknowledged theoretical approach to family firm behaviors (Jensen and Meckling 1976). Traditional agency theory anticipates opportunistic behaviors: An agent

in a contract can operate in his or her interest rather than the interest of the principal, thus generating moral hazard and adverse selection problems (Eisenhardt 1989; Jensen and Meckling 1976). Traditional agency costs, which result from the so-called principal–agent problem (or Type I agency problem), arise when ownership and management incentives are not aligned, such that information asymmetries and opportunistic behaviors lead to free-riding and shirking (Jensen and Meckling 1976). Beyond the economic losses, agency problems also create costs associated with the need for monitoring, incentive systems, and governance structures (Eisenhardt 1989; Jensen and Meckling 1976). However, agency costs diminish when ownership and management converge, because the principal's and the agent's interests align.

On this basis, many scholars predict that family firms can mitigate opportunistic behaviors and reduce agency and monitoring costs (Jensen and Meckling 1976; Schulze et al. 2002; Le Breton-Miller et al. 2015; Siebels and Knyphausen-Aufseß 2012; Pindado and Requejo 2015). This prediction relies on the expectation of *altruistic* behavior; for example, parents usually act generously to benefit their children. Therefore, family-based altruistic behavior motivates family managers to focus on long-term horizons, promote the family's identity and reputation, and pursue noneconomic goals, without expecting any rewards (Eddleston et al. 2008; Chen and Nowland 2010; Lubatkin et al. 2005; Schulze et al. 2003). Altruistic behavior also aims for the simultaneous enhancement of individual and collective wealth, because it is concentrated in the firm and depends on appropriate management and strategic choices (Schulze et al. 2003; Siebels and Knyphausen-Aufseß 2012; Pindado and Requejo 2015). In turn, several studies have asserted that altruism can be a source of competitive advantage, because it reduces information asymmetries and promotes communication, fostering family commitment and a sense of belonging to the business (Schulze et al. 2003; Carney 2005; Lubatkin et al. 2007; Eddleston et al. 2008). An endorsement of this collectivistic view, beyond maintaining family traditions and harmony, also helps prevent the emergence of relationship conflicts, which may be particularly likely in family-managed firms when members belong to different generations or family branches (Eddleston and Kellermanns 2007; Kellermanns and Eddlestons 2004, 2007).

However, some studies also caution that altruism might tend to transform into *self-control problems* that expose family firms to specific types of agency costs (Schulze et al. 2003; Lubatkin et al. 2007b; Bammens et al. 2011; Siebels and Knyphausen-Aufseß 2012). In this sense, excessively altruistic behavior may allow family priorities to overcome business ones, prompting courses of actions such as nepotism, lavishing excessive perquisites and privileges on employed children, or setting underserved career paths and comparison criteria (Schulze et al. 2003; Chua et al. 2009; Lubatkin et al. 2007a, b). Unlike a traditional moral hazard problem, the self-control challenge (also known as intra-personal moral hazard) refers to conflicting ideas within a single person, such as an internal struggle by a principal or owner to prioritize family-oriented or entrepreneurial/managerial behavior. In striving for noneconomic objectives and participating in their intrinsic family relationships, family members might lose their self-control and long-term perspective, such that they adopt hazardous actions that threaten firm performance and family wealth (Lubatkin et al. 2005; Bammens et al. 2011; Siebels and Knyphausen-Aufseß 2012). The problem is accentuated in privately held family firms; unlike listed family companies, they are not subject to capital market pressures or active monitoring by shareholders (Anderson and Reeb 2003b; Carney et al. 2013).

Similar to traditional organizations though, family firms might be affected by the principal–principal agency problem (i.e., Type II), which arises between majority and minority shareholders (Villalonga and Amit 2006). The privileged monitoring position of majority owners may expose them to information advantages that they can use to pursue their own interests, to the detriment of other owners. Relative to other types of owners, the family has a stronger potential incentive to expropriate resources, in that when “the large shareholders are an institution such as a bank, an investment fund, or a widely-held corporation, the private benefits of control are diluted among several independent owners” (Villalonga and Amit 2006, p. 2), so their incentive to expropriate resources is minimal. But family firms have great incentives to expropriate resources, because the private benefits of control are concentrated among family members. Type II agency problems thus take different forms in family firms depending on whether minority

shareholders belong to the family or not. If they do, the altruism problem resurfaces in second- or later-generation family firms, which often face fragmentation across the separate siblings' family units (Sonfield and Lussier 2004). In sibling partnerships or cousin consortia organizations, excessive altruism by family units, each characterized by its own utility function, leads to an intra-family divergence of interests and favors self-interested actions that disregard overall family (firm) wealth (Schulze et al. 2003; Sonfield and Lussier 2004; Lubatkin et al. 2005; Bammens et al. 2008). Depending on the level of diversity among family members, they might engage in entrenchment or suffer relationship conflicts related to their distinct opinions about strategic issues (e.g., dividend payouts, risk attitude, hiring strategy, incentive systems) (Kellermanns and Eddlestone 2004, 2007; Eddlestone and Kellermanns 2007; Villalonga and Amit 2006).

Substantial research also demonstrates that the entrenchment phenomenon occurs with external minority shareholders too (Claessens et al. 2002; Young et al. 2008; Siebels and Knyphausen-Aufseß 2012; Carney et al. 2013). With a mixed ownership structure, minority owners who are not part of the dominant family face the so-called expropriation risk. That is, family owners/managers, affected by their excessive altruism, expropriate value from minority shareholders through their behaviors driven by noneconomic goals, which privilege family wealth over firm efficiency or performance (e.g., Villalonga and Amit 2006). Empirical studies verify that, beyond a certain threshold, increasing family managerial ownership enhances the likelihood of managerial entrenchment, increases agency costs, produces less effective governance mechanisms, and hinders performance (e.g., Anderson and Reeb 2003a; Villalonga and Amit 2006; Claessens et al. 2002; Young et al. 2008; Yang 2010; Pindado and Requejo 2015).

This domino effect can be detected and stemmed most easily in publicly listed family firms, in which minority shareholders can discount the expropriated value from the family's equity share (Claessens et al. 2002; Pindado and Requejo 2015). In financial markets, the presence of strong isomorphic norms leads to more severe, effective governance and monitoring systems that limit the degrees of freedom granted to the dominant owning family (La Porta et al. 1998; Carney et al. 2013; Claessens

et al. 2002). Conversely, in privately held firms, the pursuit of noneconomic goals and the entrenchment problem are harder to overcome, because no isomorphic forces keep the family from expropriating benefits from non-family minority shareholders. The most troubling scenario occurs when private family firms are characterized by pyramidal ownership structures that favor so-called tunneling activities (Claessens et al. 2002; Siebels and Knyphausen-Aufseß 2012). Johnson et al. (2000, p. 22) use the term *tunneling* to describe the “transfer of resources out of a company to its controlling shareholder,” to the detriment of minority owners. For example, private benefits may result from the sale of assets at prices below market value or with terms that are prejudicial to minority owners. In that case, the divesting company’s value will decline, because the divested unit is being sold at a price lower than its market value, especially if the sale is made to an acquirer in which the majority owner holds a higher share than in the divesting company.

2.3.2 Resource-Based Theory

Another popular theoretical framework for investigating family businesses is the resource-based view of the firm (RBV). The argument at its core is that different firms reach diverse levels of performance and competitive advantage because they are endowed with different resources (Barney 1991). The value created by different companies depends on how they assemble a bundle of valuable, rare, difficult to imitate and substitute resources (Barney 1991). This resource heterogeneity and complementarity explain differential performance (Barney 1991). Family businesses are complex, multilayered, and multidimensional, such that the RBV has been particularly suitable as a lens of analysis.

Specifically, the idea that a bundle of resources, idiosyncratic to the firm and its environment, produces a company’s sustainable competitive advantage is particularly worthwhile for family businesses, because it demands the inclusion of different, idiosyncratic, firm-level characteristics in any analysis (Habberson and Williams 1999). Prior studies thus ascribe the superior performance of family firms to different, relevant traits, such as a family-oriented industrial atmosphere and collective

identity (Zellweger et al. 2010), which can foster employee productivity and information exchanges (Ward 1988; Ling and Kellermanns 2010). Furthermore, family ties might increase motivation and commitment to the company's vision and long-term objectives (Chirico 2008; Gomez-Mejia et al. 2007; Zellweger and Astrachan 2008). Other studies cite traits such as community loyalty and respect (Hoffmann et al. 2006), upright reputations (Tagiuri and Davis 1996), and more flexible decision-making processes (Tagiuri and Davis 1996).

Combining these multidimensional effects, some RBV theorists identify *familiness* as the advantage that family firms derive, in terms of their unique and distinctive resources and capabilities that lead to advantage-based rents and high levels of value creation (Habberson and Williams 1999; Chirico et al. 2011a; Chirico and Salvato 2008; Arregle et al. 2007). Extensions of this construct have investigated its components, antecedents, and consequences. For example, by merging the concepts of familiness and organizational social capital (i.e., the relationships between individuals and organizations that enable action and create value; Sharma 2008; Adler and Kwon 2002), scholars propose a social capital model of familiness (Pearson et al. 2008; Sharma 2008) to complement the original, static familiness framework with a critical evolutionary perspective. Familiness is nourished by both the content and flow of social capital. The former is internally oriented; it consists of the networks and relationships that emerge within the organization and the family. The latter is externally oriented and describes networks that develop with actors who interact with the organization and the family but operate primarily outside of the organization (Arregle et al. 2007; Sharma 2008). Content and flow in turn contribute to the emergence of bonding and bridging social capital, respectively. Bonding social capital supports the development of within-family networks and contributes to the formation of a bundle of resources and capabilities. Bridging social capital instead fosters the creation of flows between the family and its environment that produce variation in their social capital and familiness (Sharma 2008; Pearson et al. 2008). If the interaction between content and flow results in a balanced exchange, capital stock will be enriched (distinctive familiness), but if the exchange is unbalanced, capital stock will suffer a decrease (constrictive familiness).

From a similar perspective, an idiosyncratic and unique bundle of resources can originate with the interaction among the family, its members, and the business (Habbershon et al. 2003; Habbershon 2006). Resources and distinctive capabilities get generated by the influence of the external economic and social environment on the family, its members, and the business, as well as by the interactions of each party within the ecosystem (Habbershon 2006). Depending on the interaction process, the idiosyncratic bundle of resources and capabilities can be affected either positively or negatively by family influences.

Offering a further means to explain the evolution of familiness over time and contribute to the integration of the RBV and agency theory, Habbershon (2006) proposes a framework of family-influenced agency interaction. In this framework, younger family businesses (i.e., early stage of the organizational life cycle) benefit from an unbounded familial culture, but older and bigger organizations take advantage of their bounded, well-organized culture, which focuses more on structured monitoring and control mechanisms. In the latter case, the objective is to conserve family value and norms, while avoiding classical agency problems such as adverse selection or moral hazard (Habbershon 2006).

Finally, recent studies investigate the impact of the family's bundle of resources on specific strategic decisions, such as the tendency to engage in franchising (Chirico et al. 2011a) or adopt an entrepreneurial orientation (Kellermanns et al. 2016; Chirico et al. 2011b). Efforts to identify the specific family resources that might foster or deter an entrepreneurial orientation identify factors such as the level of reciprocal altruism (Eddleston et al. 2008) or the amount of parsimony, which might drive family owners to deploy resources with greater care and frugality (Chrisman et al. 2005a).

2.3.3 Stewardship Theory

Stewardship theory focuses on principals and steward-agents (Donaldson and Davis 1991; Davis and Harveston 1999). In contrast with agency theory, which regards the agent as the opportunistic and self-interested party (i.e., economic view), in stewardship theory, the agent is a steward (i.e., humanistic view), characterized by a long-term

perspective, commitment, family values, and identification (Eddlestone and Kellermanns 2007; Le Breton-Miller and Miller 2009; Davis et al. 2010; Madison et al. 2016).

In a family business context, a stewardship approach suggests that managers are intrinsically motivated by their identification with the family's business, history, and culture (Le Breton-Miller and Miller 2009; Vallejo-Martos 2009). Family managers feel a sense of belonging and inherently act as stewards, thereby fostering a collectivistic culture (Arregle et al. 2007; Zahra et al. 2008). Non-family managers who are led by steward-family owners also are involved and committed to the firm's prosperity and longevity, laying the foundation for a reciprocal stewardship culture (Vallejo-Martos 2009; Pearson and Maler 2010). This reciprocal stewardship situation is especially prominent in territorially rooted and small enterprises, for which the family, the business, and local wealth are inextricably linked. This collection of binding factors nurtures participative decision making, which then results in the consolidation of governance mechanisms characterized by loyalty and trust (Sirmon and Hitt 2003; Eddlestone and Kellermanns 2007; Le Breton-Miller and Miller 2009; Davis et al. 2010). According to Davis et al. (2010), stewardship is the "secret sauce" for creating competitive advantages, derived largely from the influence that pro-organizational and other-serving endeavors have on the family firm's organization (Le Breton-Miller and Miller 2009; Madison et al. 2016).

Therefore, stewardship may appear in the form of three specific expressions that likely occur simultaneously: community, continuity, and connections (Miller et al. 2008). Community refers to the collectivistic culture that encourages commitment, cohesion, loyalty, and senses of belonging and responsibility (Davis et al. 2010; Eddlestone and Kellermanns 2007; Miller and Le Breton-Miller 2005; Le Breton-Miller and Miller 2008; Madison et al. 2016). Continuity implies embracing a long-run approach, with the purpose of safeguarding business wealth that corresponds with the resources of the family and the whole organization (Miller and Le Breton-Miller 2005; Le Breton-Miller and Miller 2008). Finally, connections denote relationships with external stakeholders; they are strongly linked to continuity, in that they can help establish long-lasting relationships (Gomez-Meija et al. 2001).

Notwithstanding the supposed inconsistency between agency and stewardship theories, recent efforts have been focused on reconciling these two perspectives in a unique context. In this argument, the applicability of the two approaches may depend on the degree of managers' social embeddedness within the family (Le Breton-Miller and Miller 2009; Le Breton-Miller et al. 2011; Siebels and Knyphausen-Aufseß 2012; Madison et al. 2016).

2.3.4 Behavioral Agency Model

Finally, a pillar of family firm theory relies on the behavioral agency model (BAM) (Tversky and Kahneman 1986; Wiseman and Gomez-Mejia 1998), which predicts that different variables have varying impacts on agents' decision outcomes, and they are not rooted in a rigid or inflexible path (Wiseman and Gomez-Mejia 1998). The only rule that guides decision makers is the preservation of the firm's accumulated, existing endowments (Wiseman and Gomez-Mejia 1998; Gomez-Mejia et al. 2000). Advocates of this view mainly investigate risk-taking behaviors by firm agents, with the argument that a risk-aversion hypothesis actually should be substituted with a loss-aversion one (Wiseman and Gomez-Mejia 1998; Lim et al. 2010; Miller et al. 2014; Le Breton-Miller et al. 2015).

That is, traditional family business literature (e.g., La Porta et al. 1999) posited that wealth concentration in a single firm leads to greater *risk aversion*, such that family firms would be reluctant to pursue potentially high-return investments because of their concentrated ownership position (Morck and Yeung 2003; Gomez-Mejia et al. 2007). On the contrary, according to the BAM, agents modify their risk attitudes depending on their perceptions of prospects for changes to their personal wealth (Wiseman and Gomez-Mejia 1998; Lim et al. 2010). That is, *risk bearing* should relate to the perceived risk imposed on agent wealth (Lim et al. 2010). This reasoning has been widely embraced by scholars who investigate family owners' risky decisions. The widespread assumption that family owners are risk averse accordingly has been replaced with a loss-aversion hypothesis (Lim et al. 2010), which holds

that family owners (unlike non-family ones) conceive of loss beyond just economic wealth. The loss they try to avoid extends past simply financial wealth or firm profit to include their socio-emotional endowments (Gomez-Mejia et al. 2007).

A well-established socio-emotional wealth (SEW) model builds on this theory and provides an interesting theoretical formulation for family firm studies (Gomez-Mejia et al. 2007, 2010, 2011; Berrone et al. 2012). Berrone et al. (2012) assert that the inseparable link between family and managerial–business life in family firms represents their primary distinguishing feature: Only in family firms are agents and principals driven by noneconomic goals and affective endowments. As a result, this particular attitude shapes family firm decisions and influences their major strategic choices and policy (Berrone et al. 2012). To preserve their SEW, including social and emotional connections and their resulting benefits, family decision makers thus forgo less compelling, correctly perceived actions, even at the expense of potential higher returns (Gomez-Mejia et al. 2007; Berrone et al. 2012; Naldi et al. 2013; Le Breton-Miller et al. 2015).

Another model proposes that family loss aversion actually encompasses five main dimensions (Berrone et al. 2012):

1. Personal *fulfillment*, derived from successfully running the business, might be threatened by a loss of family control or influence.
2. The *identification* of family members with the firm pushes those members to ensure the preservation of the firm, which often carries their family name. This identification issue has been widely recognized as a distinguishing trait of family firms (Kets de Vries 1993; Gomez-Mejia et al. 2007; Westhead et al. 2001); it constitutes a sort of “overarching construct” that marks the family members who work for the business that sports their family name (Ket de Vries 1993). Through their identification, family members’ SEW increases in terms of attachment, perpetuation goals, and long-term perspectives (Westhead et al. 2001; Gomez-Mejia et al. 2007).
3. Social *recognition* stems from family membership, which often allows for the development of strong social ties with employers or external stakeholders (Miller and Le Breton-Miller 2005).

4. Family members also feel an *emotional* attachment, including a sense of belonging, pride, and responsibility toward previous and future generations (Sonfield and Lussier 2004; Kellermanns and Eddleston 2004; Eddleston and Kellermanns 2007).
5. The renewal of family *bonds* to the firm through dynastic succession ultimately explains the family firm's long-term perspective and loss aversion. A family firm cannot be assessed solely using detached economic and financial criteria, because it represents a family history and tradition that should be passed down to later generations (Zellweger and Astrachan 2008). In this sense, the SEW results from ensuring successful career paths in strategic managerial position for siblings and children.

Thus, different families exhibit varying levels of loss aversion, according to their conceptions of wealth. Some might be more concerned about losing reputation, but others worry about losing control (Naldi et al. 2013). The dynamic adjustments to these concerns create a role for *risk bearing* as a critical mediator between how agents frame their wealth prospects and their risk-taking behavior (Lim et al. 2010). Asserting that family agents are risk averse is almost reductive; their risk bearing actually depends on several factors that are hard to disentangle and that affect initiatives in various ways.

2.4 Family Firm Strategic Decisions

Notwithstanding the different theoretical approaches, most empirical studies concur that family owner behaviors, goals, and interests influence the firm's strategic decisions and thus its performance (Pindado and Requejo 2015). Previous studies often focus on specific strategic decisions, such as diversification (Gomez-Mejia et al. 2007, 2010; Anderson and Reeb 2003a; Schmid et al. 2015), internationalization (Fernández and Nieto 2006; Gedajlovic et al. 2004), financing strategies (Anderson and Reeb 2003b; Pindado et al. 2012; Mishra and McConaughy 1999), investment policies (Pindado et al. 2011), R&D investments, or innovation management (De Massis et al. 2015;

De Massis et al. 2013; Carnes and Ireland 2013; Matzler et al. 2015; Chrisman et al. 2015). But as a common basis, recent studies note that family firms are consistently affected by the “mixed gamble dilemma” (Gomez-Mejia et al. 2015). That is, when they must make a strategic decision, family firms exhibit their risk-bearing tendencies. Because family owners tend to be more concerned with loss aversion, rather than risk aversion, they have difficulty resolving the trade-off between their financial and SEW considerations (Chrisman and Paterl 2012; Gomez-Mejia et al. 2011). The family members might focus more on preventing the firm’s vulnerability, even if the resulting actions lead to “below-target” performance (Gomez-Mejia et al. 2007, 2015). In other words, they are more willing to undertake *venturing* risks than *performance hazard* risks, because they seek to preserve the status quo and their socio-emotional endowments (Gomez-Mejia et al. 2007, 2015). In turn, this loss aversion attitude affects various strategic decisions, as detailed in the following sections, while Chap. 3 provides a comprehensive and integrative review of existing research on the management of technological innovation by family firms.

2.4.1 Diversification

To address their financial considerations, family firms should undertake diversification strategies to spread their business portfolio and risk (Gomez-Mejia et al. 2010). Furthermore, next-generation prosperity, in SEW terms, is closely related to the persistence of the firm, so reducing risk should be a primary purpose for family members (Casson 1999). Despite these rationales suggesting that family firms should undertake diversification strategies, several studies highlight opposite findings. Anderson and Reeb (2003b) find that family ownership relates significantly to diversification choices—defined as a decision to combine business units from separate industries under a single firm’s roof (Schmid et al. 2015)—and that family firms engage in significantly (15%) less corporate diversification. Consistent with stewardship theory, they attribute this finding to family managers’ commitment to ensure the firm’s competitive advantage, such that they “avoid diversification

because of its substantial negative effects” (Anderson and Reeb 2003b, p. 659). Yet according to the BAM, the reduced level of diversification instead results from the loss of SEW, regardless of the negative performance implications (Berrone et al. 2012; Gomez-Mejia et al. 2007, 2010). That is, diversification requires funding, which is unlikely to come from the family. Thus, it requires access to external resources, whether through the entrance of external shareholders or debt capital. Both options imply some loss of authority, control, and influence (Schulze et al. 2003; Schmid et al. 2015), so these diversification activities represent a hazard to SEW, in terms of family control and power, by introducing new players into the organizational routine and challenging well-established practices (Gomez-Mejia et al. 2010). From this standpoint, family management is not a strength but rather a relative weakness in terms of financial performance, because managers avoid financially advantageous operations, just to preserve their control. Mishra and McCounaghy (1999) concur that family-owned firms prefer to grow by leveraging their internal resources, even at the expense of profitable opportunities, rather than increasing their external dependence (Casson 1999).

In addition to opening the family to external influences in terms of ownership and governance structure, diversifying into new industries also increases the need for non-family, professional management that possesses the competences needed to succeed in the new business (Arregle et al. 2012). According to the RBV, as the number of external executives rises, the level of familiness—from which family firms draw their competitive advantage—decreases (Habbershon and Williams 1999; Morck and Yeung 2003; Morck et al. 2000). The detachment from family values and norms, which were instituted by the founder and rooted in the family and its history, thus may exert a negative impact on firm performance (Habbershon and Williams 1999). On the flipside, avoiding diversification and failing to introduce external managers could have detrimental effects too, because it threatens the organization with inertia (Salvato and Melin 2008; Cannella et al. 2008; Zellweger et al. 2010; Chirico and Nordqvist 2010). When a firm is trapped by its rigidities, standard policies, and routines, it cannot respond to changing environments or seize profitable opportunities

(Schulze et al. 2003). From this perspective, organizational inertia obstructs the complex diversification process, which implies a change not only to the industries covered but also to the business processes and *modus operandi* (Eisenmann 2002; Gomez Mejia et al. 2010; Binacci et al. 2016). With this reasoning, family firms that refuse to hire external managers, with the objective of conserving their “dynasty,” may exacerbate problems associated with nepotism, free riding, and adverse selection (Barnett and Kellermans 2006). They prefer to limit the top management team to family members, regardless of their professional skills or competences, even though widening the circle to external talented managers could lead to firm growth and greater wealth (Gomez-Mejia et al. 2010; Cannella et al. 2008; Zellweger et al. 2010).

2.4.2 Internationalization

The degree to which a firm internationalizes its reference markets or operations is another key decision that family firms face. As a type of diversification, expansion to internationally diverse markets can help mitigate the level of risk borne by an organization (Kim et al. 1993; Hitt et al. 1997; Sanders and Carpenter 1998), because it gets spread over different countries, which lowers the overall level of total and systematic risk (Kogut 1985). Internationalization also can benefit firm performance, because it allows the firm to move beyond the boundaries of its domestic market, exploit demand in various countries, avoid some tariffs, and leverage its core competences in different marketplaces (Sanders and Carpenter 1998).

However, the distinguishing features of family firms have prompted varied predictions about the outcomes of their internationalization, depending on the theories used to explain the results (Gomez-Mejia et al. 2010). Similar to diversification, family firms might renounce profitable internationalization opportunities to avoid the loss of SEW (Gomez-Mejia et al. 2010; Pindado and Requejo 2015). Here again, reduced internationalization activity might reflect the owners’ desire to concentrate ownership and managerial control within the family (Gomez-Mejia et al. 2010). The intrinsic complexity and massive

financial resources needed for any internationalization effort suggest that such operations require input from external investors, representing a potential threat to family power.

Internationalization in culturally distant countries in particular may prevent family managers from exploiting their best practices and organizational routines in new markets, which would require them to hire external non-family managers with distinct competencies (Hofstede 1980; Hitt et al. 1997). Given that family firms prefer to keep their top management team closed, they likely avoid complex international activities (Gedajlovic et al. 2004). In a related sense, internationalization demands effort to build external ties with new customers and other critical stakeholders in the new market (e.g., suppliers, institutions, credit systems). Detaching from a local territory is often one of the greatest threats facing family firms, because they derive most of their social status, identification, and recognition—that is, their SEW endowment (Gomez-Mejia et al. 2010)—from the local environment in which the firm was founded. In turn, several empirical studies affirm that family control and ownership are negatively associated with internationalization strategies (Gomez-Mejia et al. 2010; Eberhard and Craig 2013; Pindado and Requejo 2015).

2.4.3 Financing and Investment Strategies

Because of their goal to preserve control, family firms often have less levered capital structures and make little use of debt capital, to avoid handing over more control than needed to credit providers (Mishra and McConaughy 1999). The basis for this family debt aversion resides not only in the fear of a loss of control but also in the increased likelihood of family conflict associated with debt acquisition (Gomez-Mejia et al. 2010, 2011; Carney et al. 2013). Despite substantial research agreement about this behavioral attitude, no shared opinion exists regarding its effects on firm profitability or performance. In other words, the debate about whether debt aversion represents a competitive advantage or a disadvantage for family firms remains open (Carney et al. 2013). At the basis of this dispute are two main theoretical approaches.

First, the BAM predicts that family capital structure decisions are driven by noneconomic goals, such as loss of SEW, so they avoid riskier but potentially profitable growth opportunities, which ultimately harms family firm performance (Mishra and McConaughy 1999; Chandler 1990). Second, stewardship theory highlights the long-term perspective adopted by family managers, which pushes them to avoid debt financing because it might increase the risk of bankruptcy and endanger their long-term profitability (Arregle et al. 2007; Miller et al. 2008).

Another pertinent decision refers to investment policies. Family firms generally have greater investment and cash flow sensitivity, such that they often prefer more slow and organic growth, rather than rapid, financially challenging acquisitions of new business (Pindado and Requejo 2015; Gomez-Mejia et al. 2015). Acquisitions, in addition to representing challenges to cash flows, also imply an openness to entrepreneurial notions and cultures (Zellweger et al. 2012) and granting more control to external stakeholders with unique entrepreneurial competencies (Gomez-Mejia et al. 2010, 2015). Finally, they threaten a loss of firm reputation, due to the dynamism that characterizes mergers of products/services, routines, and resources, all of which tend to create confusion and a lack of identity (Deephhouse and Jaskiewicz 2013; Gomez-Mejia et al. 2015).

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